

Message Text

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ACTION EUR-12

INFO OCT-01 ARA-14 ISO-00 EA-12 SP-02 ICA-20 AID-05

EB-08 NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01

CIAE-00 COME-00 FRB-01 INR-10 NSAE-00 XMB-04

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FM AMEMBASSY BRASILIA

TO AMEMBASSY LUXEMBOURG

INFO SECSTATE WASHDC 7060

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

UNCLAS BRASILIA 2921

PASS TREASURY

E.O. 11652: N/A

TAGS: EFIN, LU

SUBJECT: TAX LIABILITY ON U.S. BANK LOANS

REF: LUXEMBOURG 0287

1. INFORMATION IN REFTEL IS CORRECT THAT U.S. DOES NOT HAVE A BILATERAL TAX TREATY WITH BRAZIL. A CONVENTION WAS NEGOTIATED IN THE LATE 1960'S BUT WAS NOT RATIFIED BY THE SENATE. THE U.S. AND GOB HELD VERY PRELIMINARY DISCUSSIONS IN FEB 1978 OF THE POSSIBILITY OF A TAX TREATY BUT AT THIS TIME NO FURTHER DISCUSSIONS HAVE BEEN SCHEDULED.

2. UNTIL VERY RECENTLY REMITTANCES OF INTEREST FROM BRAZIL TO THE U.S. ON U.S. BANK LOANS TO BRAZIL ENJOYED A U.S. FOREIGN TAX CREDIT EQUIVALENT TO THE 25 PERCENT BRAZILIAN WITHHOLDING TAX ON SUCH REMITTANCES. HOWEVER, OWING TO GOB REBATE OF 85 PERCENT OF THE 25 PER-
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CENT TAX (I.E., 21.25 PERCENT), THE IRS ALERTED U.S. BANKS IN NOVEMBER 1976 THAT TAX CREDITS FOR THE PART OF THE BRAZILIAN THAT IS REBATED MIGHT BE REVOKED. SUCH REVOCATION WAS IN FACT ANNOUNCED IN MID-MARCH 1978 WITH REGARD TO NEW LOANS. THE IMPLICATION IS THAT INTEREST PAYMENTS ON U.S. BANK LOANS TO BRAZIL SUBSEQUENT TO THE ANNOUNCEMENT WILL

GENERATE FOREIGN TAX CREDITS CORRESPONDING ONLY TO 15 PERCENT OF THE 25 PERCENT GOB TAX (I.E., 3.75 PERCENT). SUBSEQUENT CLARIFICATION IS STILL PENDING WITH REGARD TO TREATMENT OF INTEREST REMITTANCES ON LOANS MADE PRIOR TO THE ANNOUNCED REVOCATION.

3. EMBASSY HOPES ABOVE INFORMATION IS HELPFUL. FOR FURTHER DETAILS ON U.S. TAX POLICY GOVERNING U.S. BANK LOANS TO BRAZIL, WE SUGGEST THAT INQUIRES BE DIRECTED TO THE TREASURY DEPARTMENT.

4. FOR WASHINGTON. EMBASSY BRASILIA WOULD APPRECIATE RECEIVING INFO COPY OF ANY RESPONSE TO LUXEMBOURG.
JOHNSON

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NNN

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